



UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL ADJUSTMENT ADMINISTRATION

1938 A. A. A. FARM PROGRAM - - - - - COMMODITY INFORMATION

## WHEAT and the Agricultural Adjustment Act of 1938

### *How the New Farm Act Affects Wheat Growers*

Wheat farmers are confronted in 1938 with larger supplies, lower prices, uncertain export markets, and lower income.

To help them meet these problems the provisions of the Agricultural Adjustment Act of 1938 are available. This act provides new methods of cooperative operation for wheat farmers. These measures include acreage allotments, commodity loans, marketing quotas, and crop insurance.

This publication explains in general terms the principal provisions of the Agricultural Adjustment Act of 1938 which are of special interest to wheat farmers. For details of operation of the program farmers should consult their local agricultural conservation committees or county agents.

**T**HE AGRICULTURAL Adjustment Act of 1938 makes possible a permanent and comprehensive national farm program. It strengthens and broadens previous farm legislation, including the Soil Conservation and Domestic Allotment Act under which the conservation programs of 1936 and 1937 have been carried on.

In addition, it makes special provisions for five major crops, without materially changing the agricultural conservation programs under which cooperating farmers can obtain payments to assist them in carrying out the conservation purposes of the program.

The new act is especially important to wheat farmers because wheat is one of the five major crops for which it makes special provision. The other major crops for which the act makes special provisions are cotton, corn, tobacco, and rice. For all these crops the act aims to provide greater stability in production, marketing, prices, and growers' income.

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## Principal Features of a National Wheat Program

The Agricultural Adjustment Act of 1938 constitutes the legislative basis for a national wheat program designed to bring about a more even flow of wheat to market every year and a more stable income to growers. In the interest of consumers it is designed to help make sure that there will be plenty of wheat for the national food, feed, and seed supply, at all times, even in years when weather or other natural conditions reduce the production.

The program contains four main features:

1. **Acreage Allotments.**—Acreage allotments will be determined for all wheat farmers. Keeping their wheat seedings within these allotments (except seedings for harvest in 1938) will be a necessary condition to be met by farmers who cooperate in the agricultural conservation program and receive payments.

2. **Commodity Loans.**—If wheat prices go unduly low or if crops are unusually large, loans to farmers may be made on the security of their stored wheat. Such loans are intended to keep prices from falling too far, and to enable farmers to hold part of their crop off the market. The act authorizes the Commodity Credit Corporation to make loans on stored wheat at rates between 52 percent and 75 percent of parity in years when the farm price on June 15 is less than 52 percent of parity, or when the July crop report of the United States Department of Agriculture indicates a wheat crop greater than a normal year's requirements for domestic consumption and exports.

No loans may be made on wheat, however, in a marketing year in which marketing quotas could be applied but in which one-third or more of the farmers voting in a referendum on quotas have voted against them. Rejecting marketing quotas in years when supplies of wheat are excessive, would reduce the market value of the wheat which is the Government's only security for loans.

3. **Marketing Quotas.**—When United States wheat supplies for any year are in excess of 945 million to 1 billion bushels, marketing quotas can be used to keep some of this wheat from being dumped on the market. These quotas can become effective only if farmers approve them in a referendum, and will not apply to farms on which the normal production of the seeded acreage is less than 100 bushels.

4. **Crop Insurance.**—Farmers may insure their wheat crops, beginning with the crop for harvest in 1939, paying their premiums in actual wheat or the cash equivalent. If their crop fails their insurance claims will be paid in actual wheat or its cash equivalent. Crop insurance applies only to wheat at present but may be extended to other crops later.

Taken together, these four provisions form the basis of an ever-normal granary for wheat. They make it possible for farmers to store and hold part of excessively large crops in reserve for years when crops are not so large. It provides the mechanism by which cooperating farmers can adjust their production to meet the domestic and export needs for wheat and the reserves which go to fill up the granary.



### Acreage Allotments

The national wheat acreage allotment is to be determined each year on the basis of the supply of wheat in the United States in relation to prospective needs. The supply consists of the carry-over from the previous year and the prospective crop for the current year.

Under present export demand and domestic consumption conditions, the national acreage allotment is to be the number of acres which, at average yields, will produce enough wheat to constitute a total supply of 910 to 975 million bushels. This includes the carry-over. The larger the carry-over, the smaller the acreage allotment, and the smaller the carry-over the more wheat acreage will be needed. Changing conditions of demand in future years will alter the required supply levels and acreages.

The program is designed to maintain in this country a total supply of wheat about 30 percent larger than normal domestic consumption and exports, which means an annual carry-over of 210 to 225 million bushels in addition to the 700 to 750 million bushels needed for such consumption and exports. The purpose of maintaining this carry-over is to protect both the consumers and the income of the producers—to make sure that even in bad years there will be wheat for farmers to sell and for consumers to buy, at fair prices.

With average yields the 700 to 750 million bushels of wheat needed for domestic consumption and exports can be produced on from 58 million to 63 million acres of land. Therefore, when the carry-over reaches the level of 210 to 225 million bushels, the national wheat acreage allotment will be within those limits, unless export and domestic demand conditions change. Seedings in 1937, the largest on record, totaled 81 million acres, and total wheat production was 874 million bushels. Seedings for harvest in 1938 are estimated at more than 79 million acres. Average yields on this acreage would produce 950 million bushels, which added to the prospective carry-over of 200 million bushels would mean a supply of 1,150 million bushels for the 1938-39 marketing year. In recent years total wheat supplies in the United States have ranged from about 770 million to 1,250 million bushels.

United States wheat exports averaged 181 million bushels a year for the period 1923-27. In the period 1928-36 they averaged only 69 million bushels. For 1937-38 exports are estimated at 90 million bushels.

It is the purpose of the national wheat program to keep total production reasonably in line with total requirements for domestic production, exports, and the increased reserves, and not to produce so much wheat in excess of these requirements that farmers' prices will fall to ruinously low levels.

The national acreage allotment will be distributed among wheat-growing States and counties on the basis of the acreage seeded in such States and counties during the past 10 years, plus acreage diverted from wheat production under previous programs of the Agricultural Adjustment Administration. Necessary adjustment will be made for abnormal weather conditions and for trends in acreage.



Individual farm wheat acreage allotments are to be distributed through county and local agricultural conservation committees. Each allotment will be based upon the tillable acreage, the crop-rotation practices, type of soil, and topography of the farm for which it is established.

Seedings of wheat for harvest in 1938 are not necessarily affected by the wheat acreage allotments worked out for this year because compliance will be measured against the total soil-depleting acreage allotments established for farms. Wheat acreage allotments established for 1938 will be used only for the purpose of calculating payments under the conservation program. The national allotment for 1939, which *will* affect seedings for harvest in that year, will be calculated and announced not later than July 15, 1938.

### Loans on Stored Wheat

The act authorizes and directs the Commodity Credit Corporation to offer loans on the security of stored wheat, to farmers who cooperate in the agricultural conservation program, in any year in which the farm price of wheat on June 15 is below 52 percent of the parity price or in which the Department of Agriculture's July crop estimates indicate a wheat crop larger than a normal year's domestic consumption and exports.

However, in years when the supply level is so high that marketing quotas would be applicable under the act, loans are not to be made unless at least two-thirds of the wheat farmers voting in a referendum on the marketing quotas have voted in favor of applying the quotas.

In years when marketing quotas have been put into effect, the Corporation is directed to make loans to farmers who are not cooperating in meeting their acreage allotments, but only on that portion of their crops which could not be marketed without penalty, and then at only 60 percent of the rate of the loans offered to cooperators.

The rate at which the loans are to be made is determined by the parity price of wheat on the farm. The rate to cooperating farmers is to be not less than 52 percent and not more than 75 percent of the parity price of wheat at the beginning of the marketing year (July 1).

The parity price of wheat in April 1938 was \$1.15 a bushel, and 52 percent of that price is 60 cents a bushel.

The loans are for the purpose of enabling farmers to hold part of their wheat off the market when it is overloaded, and thus to obtain the benefit of orderly marketing. The loans are not intended to peg prices at high levels, but are intended to put a floor under the price and prevent its disastrous collapse.

Loans have an important effect on wheat exports. If they result in pegging prices above world price levels, flow of exports is hindered and surpluses pile up in this country to depress prices later. Moreover, surpluses accumulating in one year make necessary reductions in acreage allotments the following year, and without some measure for balancing production with demand, loans at too high a level would tend to encourage overseeding.



## Marketing Quotas

The Agricultural Adjustment Act of 1938 makes provision for farmers to cooperate in handling excessive supplies of wheat by carrying over surpluses from good years to bad, and thus stabilizing marketings to their own advantage and that of consumers.

This is the marketing-quota provision under which each farmer has a part in regulating wheat marketings by holding part of his own crop off the market when it is overloaded and threatened with price collapse.

This provision becomes available when total wheat supplies in this country pile up to a level 35 percent above the supply normally needed for domestic consumption and export. This level, specified in the act, is higher than the normal supply plus the increased reserves contemplated in the acreage allotment provisions.

The marketing-quota provision cannot become effective, even when the supply has reached the marketing-quota level, unless at least two-thirds of the wheat producers who vote in a referendum on the quota, are in favor of its application.

The marketing-quota level for wheat, as calculated on the basis of figures on consumption, export, and carry-over for the last 10 years, is between 945 million and 1 billion bushels.

The act provides for a marketing quota for wheat in any year when, on May 15, the estimated total supply of wheat is forecast at more than the marketing-quota level. Under such circumstances the Secretary of Agriculture is required to proclaim, not later than May 15, a national marketing quota for the crop of that year, subject to growers' action in the referendum which must be held by June 10. If two-thirds or more of the growers voting in the referendum favor the application of the marketing quota, it becomes effective on July 1 for the marketing year. It will apply to wheat harvested before July 1, even if the wheat is sold before that date.

The amount of the national marketing quota is to be the ever-normal granary level—a year's normal requirements for domestic consumption and exports, plus 30 percent—less the estimated carry-over from the previous year, and the year's requirement for feed and seed. The quota will be announced both in terms of the number of bushels and in terms of that percentage of the national acreage allotment which, with average yields, will produce the number of bushels in the national marketing quota. No wheat marketing quota will be in effect for the marketing year beginning July 1, 1938.

The act contains provisions for changing and adjusting the national marketing quota to meet changed conditions. If, within 45 days after the beginning of the marketing year, it develops that the total supply is less than the supply calculated when the marketing quota was proclaimed, the quota shall be increased accordingly. Also, the quotas may be increased or terminated if the Secretary finds, upon investigation, that because of a national emergency or of a material increase in export markets, such action is necessary in order to carry out the purposes of the Agricultural Adjustment Act of 1938. If the July or August crop reports of the Department of Agriculture indicate that total supplies, including carry-over, will be less than a



normal year's domestic and export requirements plus 30 percent, the marketing quotas shall become ineffective.

The national acreage allotment, at normal yields, together with the carry-over would produce only an amount equal to normal domestic consumption and export requirements plus the increased reserves. If yields were unusually high or if farmers in general did not hold their wheat seedings within the acreage allotments, the United States wheat supply might reach the marketing-quota level. Because of these conditions the national marketing quota and the marketing quotas for individual farms are stated in terms of the percentage of the acreage allotments which, at normal yields, will produce the amount of the national marketing quota. This percentage is called the "marketing percentage."

The marketing quota for an individual farm is the normal production of the marketing percentage of the acreage allotment. Farm marketing quotas for wheat apply to all farms on which the normal yield from the acreage seeded during a marketing-quota year would be 100 bushels or more, whether the operators are or are not cooperating in the agricultural conservation program. Marketing of wheat in excess of a quota which is applicable to the farm, is subject to a penalty of 15 cents per bushel, to be collected by the buyer and deducted from the price paid to the grower. Penalties will be remitted to the Secretary of Agriculture and by him covered into the general fund of the Treasury of the United States.

Following is an example of the manner in which marketing-quota provisions would apply to an individual farm. Assuming that the national marketing quota was 90 percent of the national acreage allotment; that the acreage allotment for the farm in question was 80 acres; and the normal yield for the farm was 10 bushels to the acre:

Then the marketing quota for the farm would be the normal production (10 bushels to the acre) of 90 percent of 80 acres (72 acres) or 720 bushels. This amount of wheat could be marketed from the farm without penalty. If more than this amount were produced, it could be stored under seal and a Government loan on it obtained. As much of the excess as required could be used by the grower to pay premiums on crop insurance for his wheat, if he so desired, and no penalty would attach to such use.

Wheat withheld from marketing under a marketing quota constitutes an additional reserve supply. It is included in the calculation of the annual carry-over and thus has the effect of reducing the acreage allotment for the following year.

The referendum held after the proclamation of the national marketing quota puts squarely up to farmers themselves the question of whether they want to use the marketing quota provided by the act.

### **Crop Insurance Fits Into the Program**

The act creates a Federal Crop Insurance Corporation and directs it to offer crop insurance to wheat farmers, beginning with their 1939 crop. The insurance is to cover losses from such unavoidable natural causes as hail, drought, flood, wind, winter-killing, lightning, tornado, insects, and plant diseases.



Premiums are to be paid, in advance, in actual wheat or its cash equivalent. Wheat received in premiums will be stored by the Corporation and thus be included in the Nation's reserve. Losses also will be paid in actual wheat or its cash equivalent, thus providing insured farmers with wheat for sale and consumers with wheat for purchase, in years of crop shortage or failure.

The amount of the premium for insurance on each farm will be determined by the loss records of that farm and of the area in which it is located. For coverage of 75 percent of the normal crop, the premium rate will range from one-half bushel an acre in low-risk areas, to as much as 2.5 bushels an acre in high-risk areas. Insurance on one-half the normal yield will be proportionately lower.

Wheat received as premiums and stored by the Corporation cannot be marketed except as it is paid out to farmers themselves to cover crop losses. If it is sold to prevent spoilage, or to remove reserves to another location, it must be replaced promptly with other wheat. Therefore this reserve cannot operate as a threat to depress market prices.

### **How the Program Increases Reserves**

The Agricultural Adjustment Act of 1938 is intended to make possible an ever-normal granary plan, for wheat and for other farm commodities. The plan is to produce and maintain, without exploiting and wasting soil resources, enough of these commodities to meet all domestic and export requirements and to keep up adequate reserves which can be drawn upon in years when crops are short.

In working toward this purpose with regard to wheat, the acreage allotments are designed to enable farmers to conserve their soil and avoid "mining" it by producing wasteful oversupplies of soil-depleting crops. The allotments will be adjusted to the supply situation—increased when supplies are low and decreased when they are high.

Wheat loans encourage and enable farmers to store part of their wheat when prices are low and supplies are large, and to obtain the advantage of stabilized marketing balanced with market requirements.

The crop-insurance reserves add to the ever-normal granary reserve supply, and guarantee that insured farmers will have some wheat to sell each year, regardless of crop failure or shortage.

Marketing-quota provisions are designed to serve the double purpose of holding surplus wheat off the market when it might cause disastrous price collapse, and of adding such surpluses to the reserves which protect the consumer when crops are short or fail.

### **How the Program Affects Wheat Farmers' Incomes**

Stabilizing wheat farmers' incomes is one of the main purposes of the program. It will affect their incomes in several ways.

Farmers who cooperate in the agricultural conservation program will receive conservation payments. One condition upon which these payments are made is that farmers keep their wheat seedings within the acreage allotments established under the conservation program.



Conservation payments are dependent upon annual appropriations for that purpose. Parity payments are authorized by the act when and if funds are available.

More important than these payments is the stabilizing influence on wheat prices which the program is expected to exert. Holding acreage and marketings to moderate and stable levels will tend to even out the sharp ups and downs in supply and price which have been to the disadvantage of both producers and consumers when crop shortages alternated with surpluses.

Cash receipts from sale of wheat in 1937 are estimated at \$667,000,000, the highest since 1929 when they totalled \$726,000,000. Lowest receipts in the last 15 years were in 1932 when they dropped to \$179,000,000. Average annual receipts for the 5 years 1928-32 were \$487,000,000.

## Program Protects the Consumer

The act stipulates that the program of which it is the basis must be administered in the interest of consumers as well as of producers.

One of its principal objectives is to maintain adequate reserves to protect both consumers and producers in bad years. It directs that: "In carrying out the purposes of this act it shall be the duty of the Secretary to give due regard to the maintenance of a continuous and stable supply of agricultural commodities from domestic production, adequate to meet consumer demand at prices fair to both producers and consumers."

For wheat, the program is to be so operated as to maintain a supply of approximately 910 to 975 million bushels. This represents domestic and export needs of 700 to 750 million bushels and a carry-over of 210 to 225 million bushels, which is approximately double the average carry-over from 1923 to 1927. From 1923 to 1927, inclusive, the average carry-over was 117 million bushels.

Steady marketing of wheat, with alternate gluts and shortages ironed out, will help to establish a stabilized price to consumers and at the same time, by stabilizing farmers' incomes, enable farmers to keep on buying the products of industry, thus maintaining jobs and wages for nonfarm workers.